

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Open Door Community Health Centers ("Open Door") 770 Tenth Street Arcata, CA 95521 Humboldt County		Amount Requested: \$360,000	
		Requested Loan Term: 15 years	
		Date Requested: February 26, 2004	
		Resolution Number: HII-158	
Project Site: 2426 Buhne Street, Eureka, California			
Facility Type: Community clinic, providing mental health services			
Use of Loan Proceeds: Loan proceeds will be used to purchase and remodel a facility to provide mental health counseling.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		Yes, paid-off in July 2003. Also, Open Door assumed CHFFA bond liability in January 2000; these bonds were refunded in January 2004.	
Financial Overview: Open Door is a growing organization that has demonstrated marginally profitable operations over the four years of our review. Open Door will remain highly leveraged with this loan. Proforma debt service coverage, however, will be adequate.			
Sources of Revenue:		<u>Amount</u>	<u>Percent</u>
(FYE 12-31-02)	Patient service revenue, net	\$ 10,129,617	78%
	Grant revenue	2,584,744	20%
	Other	<u>317,194</u>	<u>2%</u>
	Total Support and Revenue	<u>\$13,031,555</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
	HELP II Loan	\$360,000	Building purchase
	Equity Contribution	26,000	Remodeling
	Grant Funds	<u>75,000</u>	Financing Costs
	Total Sources	<u>\$461,000</u>	Total Uses
			<u>\$380,000</u>
			75,000
			6,000
			<u>\$461,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Open Door Community Health Centers in an amount not to exceed \$360,000 for a term of 15 years, subject to the 2003 audited financial statements being materially similar to the unaudited figures used in this report, subject to approval of this additional debt by Cal-Mortgage, and subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION
OPEN DOOR COMMUNITY HEALTH CENTERS (“OPEN DOOR”)

February 26, 2004

Resolution Number: HII-158

I. PURPOSE OF FINANCING: Open Door proposes to purchase and remodel a building nearby its Eureka clinic to provide mental health services, particularly counseling and behavioral health.

A description of the project is as follows:

Building purchase\$380,000

Open Door seeks to purchase a building for use as a mental health facility, located on the same block as its Eureka clinic. Open Door has secured an ongoing annual federal grant of \$150,000 to address the lack of these services in the service area. Other than two providers and a case manager, the facility will be staffed largely by graduate interns from Humboldt State University’s social work program.

Remodeling75,000

The 3,420 square foot building, currently used to provide radiology services, will be remodeled to create four counseling offices and a conference room. Open Door has received a \$75,000 grant award from the California Endowment for this purpose. Management anticipates that renovations will be complete by January 2005.

The value of the building and land is estimated to be \$380,000, providing a loan to value ratio of 95%.

Financing Costs 6,000

Authority Closing Fee \$4,450

Title/Escrow/Other..... 1,550

Total \$461,000

Financing structure: The Open Door financing will be structured as follows:

- 15-year loan term.
- 180 equal monthly payments of roughly \$2,500 (yearly payments of about \$30,000).
- Total interest payments of approximately \$86,585.
- 1st position lien on property located at 2426 Buhne Street, Eureka, California.
- Maximum loan to value of 95%.
- 1st lien on corporate gross revenue.

Note: This loan is contingent upon approval of Cal-Mortgage, which insures outstanding Open Door bond financing, and requires approval of any additional indebtedness.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Open Door Community Health Centers Statement of Operations (Unrestricted)

	For the Year Ended December 31,			
	2003	2002	2001	2000
	(unaudited)			
REVENUES:				
Patient service revenue, net	\$ 11,429,642	\$ 10,129,617	\$ 9,337,643	\$ 8,545,657
Grant revenue	2,846,612	2,584,744	2,663,326	1,884,738
Other	358,739	317,194	266,344	447,018
Total Revenue	<u>14,634,993</u>	<u>13,031,555</u>	<u>12,267,313</u>	<u>10,877,413</u>
EXPENSES:				
Salaries and benefits	10,113,961	9,333,304	8,720,521	7,704,772 ^(a)
General and administrative	999,942	737,520	703,099	1,012,047 ^(a)
Medical supplies	1,176,714	770,277	663,267	973,704
Space costs	901,676	555,510	676,107	563,418
Equipment costs	468,240	474,431	503,849	145,334
Depreciation	335,325	318,432	271,476	240,617
Contractual medical services	165,913	312,048	242,293	102,344
Interest	180,579	198,183	241,269	203,983
Insurance	<u>156,002</u>	<u>102,152</u>	<u>101,003</u>	<u>116,208</u>
Total Expenses	<u>14,498,352</u>	<u>12,801,857</u>	<u>12,122,884</u>	<u>11,062,427</u>
Change in Unrestricted Net Assets	136,641	229,698	144,429	(185,014) ^(a)
Unrestricted Net Assets at Beginning of Year	797,406	567,708	289,402	346,917
Prior period adjustments	-	-	<u>133,877</u>	<u>127,499</u> ^(b)
Unrestricted Net Assets at End of Year	<u>\$ 934,047</u>	<u>\$ 797,406</u>	<u>\$ 567,708</u>	<u>\$ 289,402</u>

^(a) Certain categories of 'General and Administrative' expenses in 2000 (and prior years) were reported as Salaries and Benefits in later years. Per Open Door's CFO, 'General' expenses in 2000 included write-offs and other adjustments, totaling over \$200,000, including certain assets which had not been correctly amortized.

^(b) Includes the 2000 acquisition of NorthCountry Clinic

**Open Door Community Health Centers
Statement of Financial Position**

	As of December 31			
	<u>2003</u> (Unaudited)	<u>2002</u>	<u>2001</u>	<u>2000</u>
ASSETS				
Current Assets:				
Cash	\$ 632,826	\$ 443,178	\$ 332,825	\$ 165,041
Patient accounts receivable, net	690,614	893,346	785,323	956,098
Estimated third party payor settlements	86,004	430,987	428,040	562,483
Grants Receivable	1,716,586	1,444,885	1,527,829	1,173,750
Inventories and prepaid assets	352,817	305,323	310,292	402,250
Total Current Assets	<u>3,478,847</u>	<u>3,517,719</u>	<u>3,384,309</u>	<u>3,259,622</u>
Property and equipment, net	2,948,448	3,158,588	2,930,651	2,633,576
Restricted cash	204,264	278,383	276,187	292,944
TOTAL ASSETS	<u>\$ 6,631,559</u>	<u>\$ 6,954,690</u>	<u>\$ 6,591,147</u>	<u>\$ 6,186,142</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 477,822	\$ 535,842	\$ 729,888	\$ 652,707
Line of credit	-	320,000	230,000	475,000
Current portion of long-term debt	276,481	276,480	288,199	790,919
Accrued liabilities	777,722	493,604	427,650	341,260
Accrued retirement contribution	-	198,369	495,175	446,824
Total Current Liabilities	<u>1,532,025</u>	<u>1,824,295</u>	<u>2,170,912</u>	<u>2,706,710</u>
Long-Term Liabilities:				
Long term debt, net of current portion	<u>2,455,723</u>	<u>2,624,780</u>	<u>2,496,500</u>	<u>2,036,218</u>
TOTAL LIABILITIES	<u>3,987,748</u>	<u>4,449,075</u>	<u>4,667,412</u>	<u>4,742,928</u>
Net Assets:				
Unrestricted Net Assets	934,047	797,406	567,708	289,402
Temporarily Restricted Net Assets	<u>1,709,764</u>	<u>1,708,209</u>	<u>1,356,027</u>	<u>1,153,812</u>
TOTAL NET ASSETS	<u>2,643,811</u>	<u>2,505,615</u>	<u>1,923,735</u>	<u>1,443,214</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,631,559</u>	<u>\$ 6,954,690</u>	<u>\$ 6,591,147</u>	<u>\$ 6,186,142</u>

Financial Ratios:

	Proforma ^(a) FYE December 2002			
Debt Service Coverage (x)	1.45 ^(b)	1.53	0.64	0.36
Debt/Unrestricted Net Assets (x)	4.14 ^(b)	3.64	4.88	9.77
Margin (%)		1.76%	1.18%	-1.70%
Current Ratio (x)		1.93	1.56	1.20

^(a) Recalculates December 2002 audited results to include the impact of this proposed financing.

^(b) Using 2003 unaudited results, DSC would be 1.34x and Debt/Unrestricted Net Assets would be 3.31x.

Financial Discussion:

Open Door is a growing organization that has demonstrated marginally profitable operations over the four years of our review.

In our review period, Open Door's revenues have grown as a result of an increase in encounters (22% since 2000), while keeping its expenses in check.

Open Door has managed to secure grant funds in each year of our review to supplement patient revenues. In fiscal 2001, Open Door received nearly \$1 million in Cedillo-Alarcon clinic grant funds, including funds to renovate and equip the dental clinic in Eureka.

As a means of further diversifying its revenues, Open Door has added new services to each clinic, such as dental services, and now mental health services at its Eureka clinic. Open Door also hopes to spread its overhead costs by offering a continuum of services to its existing clients.

Increases in certain expenses in 2003, however, led to overall expenses growing slightly faster than revenues. General and administrative expenses grew by 36%, which is mostly attributable to the hiring of a facility manager to handle all the new facilities that have been acquired as well as the hiring of a staff training officer and an additional IT employee (which management credits with its improving collections efforts). Open Door has no plans to add staff in 2004. Rent expense ('space costs') increased by 62%, or nearly \$350,000, with the first full year of operations for a new dental center. Medical supply expense grew by 53%, or approximately \$400,000, largely comprised of testing supplies for a new HIV program.

Open Door may experience some cost savings with the consolidation of its two McKinleyville clinic facilities in 2003.

Open Door projects that the new clinic will break-even in each of its first two years in operation. It has secured an ongoing federal grant award of \$150,000 to provide mental health services in this facility.

Open Door will remain highly leveraged with this loan.

Open Door has been highly leveraged since 2000, when it purchased clinic facilities that were previously leased in Arcata and Eureka, increasing its long-term debt by nearly \$2 million. Although leverage has declined significantly as net assets have grown since that time, debt to unrestricted net asset ratio (based on unaudited 2003 figures) was 2.93x. The proposed HELP II loan would increase this ratio to 3.31x.

Open Door has demonstrated good liquidity in our review period. Also, in fiscal 2003, a third party settlement and improved collection of receivables led to a stronger cash position and reduced the use of short-term borrowing. A refinancing and consolidation of long-term debts totaling \$1.2 million in late 2003 should also achieve significant future interest expense savings.

Proforma debt service coverage will be sufficient.

Based on unaudited 2003 figures, proforma debt service coverage will be adequate at 1.34x.

This ratio was inadequate in 2000 and 2001, at 0.36x and 0.64x respectively. However, this was due to exceptionally large amounts of debt that came due during those years, which is not expected to recur in the coming years.

III. UTILIZATION STATISTICS:

Number of encounters

	Fiscal year ended December 31			
	<u>2003*</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Medical	97,409	98,758	91,941	84,018
Dental	23,126	16,563	15,236	14,687
Mental Health	8,130	5,197	5,124	5,805
Other	<u>2,809</u>	<u>1,591</u>	<u>1,840</u>	<u>2,874</u>
Total	131,174	120,109	114,141	107,384

Number of clients, by payor

	Fiscal year ended December 31			
	<u>2003*</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Medicare	2,850	1,684	2,410	2,052
Medi-Cal	12,397	11,999	11,468	11,302
CMSP	2,238	2,327	3077	2,211
Healthy Families	597	569	400	351
Private	5,510	7,261	3,920	4,090
Self-Pay	<u>10,692</u>	<u>10,643</u>	<u>11,321</u>	<u>11,967</u>
Total	34,284	34,483	32,596	31,622

*Numbers for 2003 are preliminary.

IV. ORGANIZATION:

Background: Open Door Community Health Centers was founded in 1971 as a store-front free clinic in Arcata. Mobile units have been providing medical and dental services to rural schools since 1977. Clinics in Crescent City, Eureka, and McKinleyville were founded in the 1990's. In January 2000, Open Door merged with NorthCountry Clinic which operated a clinic in Arcata and in McKinleyville (combined into Open Door's existing McKinleyville clinic in 2003). The merger with NorthCountry added nearly \$700,000 in net assets, as well as solidifying their market share. In 2000, clinics were opened in Smith River and in the Orick elementary school. A dental clinic was opened in Eureka in 2003. Open Door also operates a mobile dental van which travels to the 36 local school districts.

All of Open Door's facilities are Federally Qualified Health Centers. Open Door owns the following facilities: Humboldt Open Door Clinic, NorthCountry Clinic, and Eureka Community Health Center. All other facilities are leased.

The following is a list of clinics:

Humboldt County:

Humboldt Open Door Clinic, Arcata
Eureka Community Health Center, Eureka
Orick Community Health Center, Orick

NorthCountry Clinic, Arcata
Open Door Clinic - McKinleyville
Burre Dental Center, Eureka

Del Norte County:

Del Norte Community Health Center,
Crescent City

Smith River Community Health Center,
Smith River

Open Door provides a wide array of services to rural and low-income clients, including urgent care, family practice, pediatrics, obstetrics, women's health, geriatrics, mental health counseling, HIV/AIDS care, dental care, and immunizations.

Licenses: Open Door is licensed as a community clinic by the California Department of Health Services. The new facility will be providing mental health services under Open Door's existing community clinic license.

Competition: Open Door's service area includes the northern two-thirds of Humboldt County, all of Del Norte County, western Siskiyou County and western Trinity County. NorthCountry Clinic, merged into Open Door in 2000, had been the other major provider of primary services in the area. Other providers in the project area of Eureka include United Indian Health Services (two miles away) and Humboldt County Health Department (seven miles away).

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/03 (unaudited)*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CSCDA Bond, 2000	\$1,195,000	\$993,519	\$993,519
Nat'l Cooperative Bank, 2003 **	1,200,000	1,200,000	1,200,000
Del Norte Hospital District, 2003	10,000	10,000	10,000
NCB 5 year notes, 2001	600,000	439,058	439,058
Dept. of Health Services, 2000 ***	183,266	89,627	89,627
Proposed:			
CHFFA HELP II Loan, 2004			360,000
TOTAL DEBT		<u>\$2,732,204</u>	<u>\$3,092,204</u>

* Includes current portion of long-term debt.

** This loan consolidated three existing loans, including CHFFA debt, acquired upon merger with NorthCountry Clinic in 2000.

***Payments to DHS for prior year overpayments from Medi-Cal.

VI. SECTION 15438.5 OF THE ACT:

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Open Door has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) to post notices in appropriate areas within the

facility regarding services being available to all in the service area. This agreement is a standard “Certification and Agreement Regarding Community Service Obligation”.

West County has executed this certification and has provided the required information. A copy of the certification is provided as **Exhibit B**.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Open Door Community Health Centers in an amount not to exceed \$360,000 for a term of 15 years, subject to the 2003 audited financial statements being materially similar to the unaudited figures used in this report, subject to approval of this additional debt by Cal-Mortgage, and subject to the standard HELP II loan provisions.